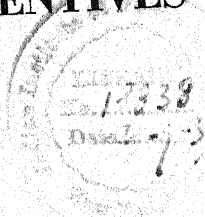




OUR CHANGING INDUSTRIAL INCENTIVES

by HARRY W. LAIDLER
Executive Director, League for Industrial Democracy



L. I. D. PAMPHLET SERIES
LEAGUE FOR INDUSTRIAL DEMOCRACY
112 EAST 19TH STREET, NEW YORK 3, N. Y.

PRICE 25 CENTS

FOREWORD

SOME years ago the author of this pamphlet prepared a manuscript for the L.I.D. entitled, "Incentives under Capitalism and Socialism." In 1946, he assisted a Committee of the Department of Research and Education of the Federal Council of Churches in the preparation of a study on "Non-Profit Incentives in Our National Life." The following monograph contains many facts presented by the author of the League's previous pamphlet, and much material prepared by him for the Church Committee and later incorporated in the Committee's report.

The author has in this revised statement on Incentives presented some of the latest contributions made by students of the subject and has examined the incentives that should be relied upon to bring about the best results under a co-operative social order. If the pamphlet stimulates the reader to further inquiry into this important subject, it will not have been issued in vain.

I. W. L.

Indian Institute of Public Administration

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LEAGUE FOR INDUSTRIAL DEMOCRACY

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By HARRY W. LAIDLER

Executive Director, League for Industrial Democracy

What makes man work in our modern business world?

On what incentives do we most rely to drive the wheels of industry around?

Is the incentive that comes from the hope of riches a necessary spur to economic activity? What about incentives under a co-operative order?

In these days of rapid economic change, these questions are being asked increasingly by millions of practical men and women throughout the world.

In attempting to answer these questions, let us first consider the incentives which are chiefly depended upon to encourage the executive in private industry to do his best work.

ADMINISTRATOR IN PRIVATE ENTERPRISE

The Incentives of the Owner-Manager

In the beginning of the capitalist order, when most businesses were conducted on a small scale, the average business man was owner, promoter, and manager all rolled into one. He would go to his factory or shop early in the morning and work throughout the day directing his labor force, taking care of sales, looking after the firm's financing, and making plans for future expansion. If, at the end of the year, his firm made profits, those profits would usually go to him.

The quest for profits and the desire for riches play a large part today, as they did in the past, in stimulating the owner-manager to conduct his business with energy and imagination and to risk his future in new ventures. One of the chief reasons for his desire to make a fortune is that, under the profit system, the acquisition of riches is, to a very large extent, the criterion of success, and the owner-manager wants to be regarded by his fellows as a successful businessman. He wants his friends and the community-at-large to say, "John Jones has certainly made good. He entered business a poor boy. Now look at him! He's a millionaire! That constitutes success!" If the social system provided other

measures of success, the owner-manager would probably work just as hard to attain these other goals.

Thousands of this type of businessman, are, however, motivated by other incentives than that of making a large profit.⁽¹⁾ Many of them work for a bare living, or for a wage or a salary in return for the services they render in superintending their plant or shop. Many labor primarily with the view of keeping their plant going—particularly in times of depression—or of seeing to it that they and their families are economically secure.

Other executives who manage their own business work like people in other occupations because of the satisfaction which they obtain from self-expression and constructive activity. Activity is life. Inactivity is death. Interference with normal activity results in grave mental disturbances. The desire to be active, to be productive, keeps many a business in harness when the income he receives from business can have little or no meaning to him. It has caused many a retired business man to return to work or to seek a life of intense activity in some non-paying field of effort as a means of avoiding utter boredom and physical and mental decay. As one author has it, "inactivity becomes a torment as soon as the normal craving for rest and leisure has been satisfied."⁽²⁾

Many of these owner-managers are spurred to action likewise by the sheer fun of the competitive game. To large numbers the sense of achievement or the joy of creative work furnish the most powerful drive to productive effort. To others the desire to be socially useful undoubtedly plays its part. Finally, many seek profit or riches not as an end in itself, but as a means to an end—power, or an opportunity to help good causes, or, as has been said before, professional or community prestige.

Many owner-managers, finally, work out of mere habit or a desire "to carry their weight" in the community. They have labored all of their adult lives. Society expects them to "do their bit." They have a guilty conscience if they are not busy.

Professor George A. Coe thus characterizes the various motives which stimulate the business man to action in addition to the strictly profit incentive:

"In one and the same act [he declares] several of the following phases of his (the business man's) mental dynamics always can be detected: family affection, family pride, and anxiety concerning security and social standing; desire for recognition in the business world; the nursing of self-conceit; loyalty to a partner; pugnacity toward a rival; enjoyment of power; the exhilaration of the game; the thrill of originality; pride

of workmanship; the glow of self-identification with an institution, enterprise or cause; the taking of a customer's interest as one's own; the feeling of responsibility for the welfare of employees, devotion to country." (3)

The Corporation Manager

Companies managed by their principal owners, however, are playing a part of decreasing importance in the industrial life of the nation. They are steadily giving way to the large corporation, trust and combine. Today about 200 of the most powerful manufacturing corporations in the United States own approximately half of the corporate manufacturing assets of the nation. (4)

In the modern large corporation, the average owner—the stockholder—has little or nothing to do with management. He buys stock in corporation A one day, and the next day may exchange that stock for that of corporation B, A's principal competitor. His chief interest is in how large a dividend he may secure from the corporation at the end of the quarter, or how much the price of the stock he purchases may rise or fall on the stock exchange. He may or may not have a vote in the deciding of policies. If he owns voting stocks, he usually mails his proxy to some officer of the corporation, who votes his stocks for him. His income from the corporation usually has little or nothing to do with his industry, his intelligence or his intellectual or physical contribution to the company's success. (5) "In your modern business or organization of large size," declares Owen D. Young of the General Electric Company, "we have completely divorced ownership from responsibility. Now ownership has little or no relation to the conduct of the business." (6)

The modern corporation is run not by the owners but by the management, with the advice of the board of directors. These officers and directors may or may not have any considerable share in the ownership of the corporation. In the Pennsylvania Railroad Company some years ago "not a single director or officer held as much as one-tenth of one percent of the total stock. The combined holdings of all the directors could not have amounted to more than seven-tenths of one per cent and were presumably much less." (7) "Where," asks Dr. Rexford G. Tugwell, referring to the Pennsylvania Railroad figures, "is the profit incentive to enterprise here? There is none, obviously, which is directly connected with the railroad. There may be speculative profits from being a director; but that is another matter and is scarcely concerned with management, even remotely." (8)

The managers of the modern corporation are thus in increasing numbers depending for their main money reward upon a salary for services rendered rather than upon the profit earned by the concerns they administer. They, of course, are under pressure from stockholders to see that the business continues as a going concern and that it earns and distributes dividends. Many secure bonuses, besides their salaries, and others in the top levels of executives obtain salaries of such proportions as to constitute far more than a wage of management, but these are exceptional. Others use their position to obtain inside information to aid them in securities transactions and obtain special favors. ⁽⁹⁾

More than is the case with the owner-manager, the corporation executive is thus forced to depend increasingly on non-profit incentives for their chief stimuli to administrative efficiency: on such economic incentives as salary for services rendered a desire for economic security, and on such psychological incentives as a feeling of satisfaction in a job well done; high standing and power in the business world and in the community-at-large; the desire to win in the battle of wits, and loyalty to the firm and industry and pride in its growth.

A vice-president of a large utility recently told me that his greatest thrill came from a feeling that he was performing a smooth and efficient administrative job. A vice-president of a large department store declared that, during his early career as an executive, his main spur to action was fear of demotion should he fail to make good. When that fear was over, his chief drive was that of pride in his job. For a while he obtained a percentage of the yearly increase in business. The cessation of this type of additional pay, however, made little or no difference in his activity. He believed that many of those under him—after obtaining a certain minimum salary—were stimulated to hard work much more by an enthusiastic word from their superiors than by increased money rewards.

In the case of James J. Hill, the "empire builder" of the Northwest, the passion for accomplishment seemed to be dominant. "There can be little doubt," declared Paul H. Douglas, "that it was the lure of having a transcontinental line under his direction, symbolized in his watchword, 'West-ward Ho,' which made him reach out towards the west coast and finally create the Great Northern system." ⁽¹⁰⁾

Hill had decided to retire when he accumulated \$100,000 and to spend the remainder of his life in cultural pursuits. But he

became engrossed in his job and continued in the railroad business until his death. He refused to accept a salary for his services from the road. He refused to speculate in the stocks of his company, or to manipulate them for his advantage. He turned over to his road immensely valuable ore lands at cost and shared the gains in the value of these lands with other stockholders of the company. On the other hand, he was a large owner of railroad stocks and could not be said to be operating outside of the orbit of the profit motive.

Non-profit incentives also played a large part in the industrial life of "Captain" W. R. Jones, "the most efficient producer of steel in the history of the industry." Jones refused to become a partner of the Carnegie Company and enjoy the large profits of many an inactive stockholder. He insisted on remaining a salaried employee. "No, I don't want to have my thoughts running on business," he is quoted as saying, "I have enough trouble looking after these works." (11)

President Walter S. Gifford of the A. T. & T. maintains that the structure of modern industry compels administrators to rely increasingly by non-commercial motivations in the performance of their duties.

"From the incentives of personal profit, [writes President Gifford] the change is to me one of pride in the job and the satisfaction of rendering a public service . . . More and more I encounter men of the highest ability who regard business not as a means to acquire personal wealth, but as a fascinating profession and as an opportunity for accomplishment. They do not seek more money from it than enough to give them comfortably only those things really worth having that money can buy—freedom from financial worry, security for their families, books, art and travel. But they do want outlet for their energies, exercise for their brains, and, above all, they genuinely want to be useful . . . Business is becoming a profession.

"New incentives to effort are in force. I know it is popular to smile at the notion that the ideal of service, of a job well done, is an adequate substitute for mere acquisitiveness but it is becoming daily more evident that this is really so. Today, without the possession of great sums of money one may live well, and it is increasingly questioned whether great fortunes are a real help to happiness." (12)

A similar point of view is expressed by Chester I. Barnard, President of the Rockefeller Foundation, and former president of the New Jersey Bell Telephone Company, in his notable book on *The Functions of the Executive*. After declaring that "many of the most powerful organizations in the world are built upon in-

centives in which the materialistic elements, above bare subsistence, are either relatively lacking or absolutely absent"—such, for instance, as political, military and religious associations, Mr. Barnard declares:

"Even in purely commercial organizations material incentives are so weak as to be almost negligible except when reinforced by other incentives, and then only because of wholesale general persuasion in the form of salesmanship and advertising." (13)

The profit motive is, of course, not absent, for the executive in a private corporation is ever under pressure to produce maximum profit for the stockholders. In many cases, as Professor Thorstein Veblen brought out, the executive's work is often sabotaged by the financier in search of speculative profits. (14)

As one descends from the highest order of executives to the second and third ranks, the quest for riches becomes negligible as an emergizing force in industrial activity. The financial reward consists almost entirely of a moderate salary for services rendered. The dividends that the lower executive obtains from the ownership of his few shares of stock in the concern for which he works are usually a bagatelle as compared with his income from salary. These dividends may have the effect of making the executive more "capitalistically minded," but they make little addition to his yearly income.

Thus, in the privately owned and operated industry, the industrial manager is depending less and less upon the quest for profits and excessive economic gains as his chief urge to action. Private industry as such is run largely with a view of profit, but the profit goes primarily to the absentee owner rather than to the managerial staff.

INVENTOR AND SCIENTIST IN CAPITALIST VENTURES

In our modern technological age, hand in hand with the administrator goes the inventor and scientist as a powerful force in the development of industry. The machines of iron and steel, brought into being by the country's technical experts, have made it possible for our industry to produce several times as much as in the beginning of the present century. Anything that encourages the inventor and scientist to do their best creative work therefore vitally affects our economic progress.

To what extent have inventors and scientists been motivated by the desire for great economic gains? How necessary to them is the profit incentive?

As in the case with the executives of our industry, the modern inventor is usually working under entirely different conditions than did the inventor of the past.

The Free Lance Innovator

In past centuries, the average inventor was a free lance, independent, innovator who, conceiving an idea for a new process or gadget in industry, usually experimented in his own make-shift workshop, using his own resources or loans from his friends. He usually took out a patent in his own name. If he was successful, he acquired a fortune. More usually, however, he made little money from his contrivances, the profits from his inventions being gathered in by some shrewd promoter. Many of the discoverers of processors of great value died practically penniless. These include such outstanding inventors as John Fitch, inventor of the steamboat; Charles Goodyear, discoverer of the vulcanizing process; Tom Davenport, builder of electrical motors; Richard Trevithick, a formidable rival of Watts in the development of the steam engine; James W. Paige, inventor of the Paige compositor, and Christopher L. Sholes, originator of the typewriter. ⁽¹⁵⁾

In some cases, it was undoubtedly the dream of riches which induced these inventors to give their days and nights to the creation of some new process or device. It is doubtful, however, whether the desire for riches played any considerable part in their activity. Many of them sought merely to improve some part of the existing machine with which they had difficulty. Many of them became possessed of an idea, and were impelled to move heaven and earth until they proved to themselves and others that there was value in it. They were urged on by the satisfaction that comes from creative activity. So long as they felt that they were making progress along their chosen line, they could not be torn away from that activity by any force except that of the most desperate need.

Professor Frank W. Taussig, of Harvard University, after a careful analysis of the activities of many noted inventors, including those of Watt, Cartwright and Ericsson, writes:

"One thing stands out conspicuously: The race of contrivers and inventors does obey an inborn and irresistible impulse. Schemes and experiments begin in childhood, and persist so long as life and strength

hold. It matters not whether a fortune is made or pecuniary distress is chronic. There is increasing interest in new dodges, increasing trial of new devices. So far the Socialists are in the right. Cartwright was in difficulties almost all his life; yet he never relaxed his interest in any and every sort of mechanical device. Edison made fortunes and lost them and made them again; but throughout he remained the same amazing and persistent contriver and it would seem that no satisfaction from pecuniary success or world recognition equals the absorbed interest of trial, experiment, novel problems, happy solutions. . . .

"Their biographies show that they were constantly experimenting on all sorts of schemes, promising and unpromising; sometimes with money-making intent, sometimes in the spirit of scientific research, and sometimes merely in sport." (16)

"Bell," declared Sanders, an associate of the distinguished inventor of the telephone, "would often awaken me in the middle of the night, his black eyes blazing with excitement. Leaving me to go down to the cellar, he would rush wildly to the barn and begin to send me signals along his experimental wires. If I noticed any improvement in his apparatus, he would be delighted. He would leap and whirl around in one of his war dances, and then go contentedly to bed. But if the experiment were a failure, he would go back to his workbench to try some different plan." (17)

When his brain child has become a reality, the inventor often turns impatiently to other ideas that have been germinating in his mind, leaving it to industrial promoters to make a profit out of the patented article. This was the case with Christopher Sholes, who exclaimed, on the completion of the typewriter, "The machine is done, and I want some more worlds to conquer. Life will be flat, stale, and unprofitable without something to invent." (18)

"He [Sholes] seldom thought of money, (declared Kaempffert), and, in fact, said he would not like to make it because it was too much bother. For this reason he paid little attention to business matters. He made very little money out of his typewriter in the end, but was not at all sorry, being quite as well satisfied to see his invention spread all over the world and to be called 'the father of the typewriter'." (19)

James Densmore, who helped to finance Sholes, made a fortune out of the typewriter. But Sholes signed away his rights to the Remingtons for a cash offer of \$12,000 and let it go at that. Thus also Frederick S. Archer gave away without price, to the vast profit of the camera industry, the secret of his collodion process, and died a poor man. (20)

Thomas Edison was usually regarded as a definitely commercially minded inventor. He was one of the few who made con-

siderable money out of his inventions. He was never interested in pure science, and was often critical of those who devoted themselves to it. And yet one cannot study his life without realizing that it was the game of discovery and the desire for fame rather than for fortune which induced him to spend his long life in ceaseless pursuit of useful devices for his fellow men. Surely money meant little to him as a means of enjoyment. He lived personally the simplest and most abstemious of lives. For days he hardly left his laboratory, lured on by the intense desire to make nature yield another of its secrets to man.

"The fiery passion of his life like Napoleon, [writes M. A. Rosanoff, for some time a close associate of Edison,] was to earn permanent fame. Once I told him that if he had been born three hundred years earlier he would have been a famous pirate. 'You think I would have been famous?' he asked. 'Yes,' I said with conviction, 'You would have been famous any time.'" (21)

In Great Britain and on the Continent, instance after instance may be given of great scientists and inventors who devoted themselves utterly to their calling without any thought of profit. (22)

Outstanding among these was Michael Faraday, researcher and discover in the field of electro-magnetism, "the greatest experimentalist of all times, and the greatest physical discoverer that ever lived." In 1832, because of his announced discoveries in electro-magnetism, after years of bitter struggle against poverty, Faraday had only to will it to raise his professional business income to five thousand pounds a year. "Indeed," says Tyndall, "this is a wholly insufficient estimate of what he might, with ease, have realized annually during the last thirty years of his life." (23) Instead he chose science and continued to struggle along with a paltry 100 pound fee from a lectureship at the Woolwich Royal Artillery Academy.

From 1839 to 1945, Faraday's business income never exceeded 22 pounds, except in one instance, and, from the end of that year to his death in 1867, his annual professional business income was exactly zero. "Taking the duration of his life into account," continues Tyndall, "this son of a blacksmith and apprentice to a book-binder had to decide between a fortune of 150,000 pounds, on the one side, and science, on the other. He chose the latter and died a poor man." (24)

Although his salary from the Royal Institution was later increased somewhat, Faraday and his family still continued to live in their simple rooms at the Institute. The inventor probably

gave way at least half of his income, besides devoting much of his time to personal kindnesses. Nor was he interested in personal honors. He declined the office of knighthood on the ground that such honors depress rather than exalt the scientist, "for they tend to lower the especial distinction of mind to the commonplace of society." (25)

Charles Darwin and Alfred Russel Wallace, formulators of the theory of evolution, were similarly powerfully motivated by non-commercial incentives.

"My love of natural science, [wrote Darwin] has been steady and ardent. This pure love has, however, been much aided by my ambition to be esteemed by my fellow naturalists—I cared in the highest degree for the approbation of such men as Lyell and Hooker—I did not care much about the general public—I am sure I have never turned one inch out of my course to gain fame." (26)

Wallace throughout his life showed no desire for formal honors and, outside of his science, gave much of his time to such causes as anti-militarism, socialism, and land nationalization.

In the field of medicine, Pasteur, whose magnificent work in connection with the isolation of germs has probably increased the wealth of nations by billions of dollars, neither profited financially from his discoveries nor showed any desire so to do. He lived with his family in great simplicity in the *Ecole Normale*, where he taught, and spent his spare energies in the fight for greater public support of scientific research. When people in Europe and America subscribed two and a half billion francs for the founding of Pasteur Institute, Pasteur and his associates, Roux and Chamberland, turned over to it all the income from the sale of his hydrophobia vaccine, in the discovery of which they risked their lives. (27)

When Louis Napoleon expressed surprise that Pasteur showed such indifference to material gain, Pasteur replied, "In France, scientists would consider that they lowered themselves by doing so." (28) Pasteur's basic hope was, in his own words, that science and peace will triumph over ignorance and war, that nations will unite, not to destroy but to build, and that the future will belong to those who will have done most for suffering humanity. (29)

The same spirit of public service was found in the activities of Metchnikoff, Pasteur's successor at the Pasteur Institute, who consecrated himself to science through years of bitter struggle with poverty and illness. (30) Joseph Lister, whose discoveries saved from infection literally millions of lives, sought no fortune from his researches, but published them without charge to the world. (31)

And so one may write of Helmholtz,⁽³²⁾ the great German physicist, dominated by the passion to understand the world and to be of service to humanity; of Agassiz, the naturalist; of Asa Gray, botanist, and a long list of others. And many of those scientists whose experiments or outside activities yielded a fortune, obtained their greatest satisfaction out of their investigations in pure science, in which the economic motive was almost totally absent. This was probably true, for instance, of Alexander Agassiz, of Joule, the discoverer of the mechanical equivalent of heat and energy, of Von Siemens, a founder of the electrical industry of Germany, and of Lord Kelvin, inventor of electrical devices.⁽³³⁾

All felt themselves engaged in the high adventure of creative achievement, and secured intense satisfaction in pursuit of new and useful discoveries.⁽³⁴⁾

Inventor As Salaried Worker

The free lance inventors are still with us, some thinking in terms of profit, others thinking primarily in terms of enlarging the boundaries of human knowledge and advancing the welfare of mankind. The old free lance inventors, however, are being gradually displaced by the salaried inventor in the great research laboratories of the giant corporations. In these laboratories almost all profit is squeezed out of the profession of inventor, as far as the man himself is concerned. During prosperous times, the Bell Telephone Laboratories, the General Electric, the Westinghouse and other concerns, send their representatives to the engineering schools of the country and pick out the best available students from the graduating classes. These corporations put these collegians through a course of training, give them a salary, and turn them loose in their elaborate laboratories on one or more problems which the industry is trying to solve.

If the salaried workers invent a new process for telephoning or broadcasting, or for the utilization of electrical energy, the royalties from the patented invention go to the corporation, not to the inventor. The inventor may receive a higher salary, a promotion, and professional and public recognition. These incentives, plus the joy of doing creative work, rather than the incentive of great riches, are motivating forces in their activity.

Some years ago I was speaking with the electrical wizard and consulting engineer of the General Electric Corporation, the late Charles P. Steinmetz, perhaps, next to Edison, the most distinguished

inventor in the electrical world. He was quietly at work in his laboratory at his home near the Schenectady plant of the General Electric. His personal demands were slight. All he wanted was enough to keep going and freedom to concentrate on some of the intricate electrical problems which were still baffling him and his profession.

I asked him whether he felt that he would have as great an incentive to work under a socialistic order as he then had. Taking his long mild cigar out of his mouth, hunching himself up over his research table, and carefully weighing his words, he declared, "Under socialism I would have even greater incentive than at present. If I invent anything now, the invention accrues immediately to the advantage of the General Electric and its full benefits reach society only after a long period of time. Under socialism, anything invented could be used immediately by the entire industry and sold to the public at cost." (35)

Inventions in modern history still yield profits. But those profits go, for the most part, to the army of passive corporation stockholders, not to the salaried inventor.

Nor does the world depend wholly on the private corporation for its inventions. In many public and non-profit institutions—in the research laboratories of colleges, universities, foundations, governmental bureaus—much scientific work of high value is constantly going on without a thought of profit. Much of it is unnoticed and unhonored. Paul DeKruif, in his fascinating books, *Microbe Hunters*, *Hunger Fighters*, and *Men Against Death*, has recorded some of this work of vital importance to society, performed by intelligent and self-sacrificing scientists in the Public Health Service, in the Department of Agriculture, and in other government bureaus.

Sometimes the full story of the scientific achievements of our public institutions should be written up. Nor should the research laboratories of our great universities be neglected. Such instances of public spirit as that of Professor Harry Steenbock, head of the Department of Agricultural Chemistry of the University of Wisconsin, should be given due prominence. Professor Steenbock is the discoverer of "Vitamin D," used, among other things, in the treatment of rickets and other diseases, including some forms of tuberculosis. It is reported that a rolled oats company offered this discoverer \$2,000,000 for his invention. He refused the offer and transferred his rights to the University of Wisconsin. "I had my moment of temptation," declared Professor Steenbock, when telling

of the offer made him. "With that money I could build my own laboratory, be free from all financial worry.

"Men's ambitions are either to make money or to do something for humanity. Mine is not concerned with money. I want to be the best food chemist in the world and I have only begun. If I took that money my life purpose would be perverted." (36)

The same spirit has animated the scientific work of Dr. Selman A. Waksman, microbiologist of Rutgers University, discoverer of streptomycin and other antibiotics used in the cure of tuberculosis. By 1949 the sales of streptomycin had grown to around \$50,000,000 annually. Though Dr. Waksman and his assistants had discovered this life-saving drug, they turned over the royalties on it to Rutgers University. By 1949 these royalties had yielded to the University around \$1,000,000.

"What need do I have for all this money?" said Dr. Waksman to me, in the summer of 1949. "I am economically secure. I can continue to cooperate with other scientists in the university laboratory in further experiments and the possibilities of new discoveries are indeed great." "When a scientist", he added, "discovers something new that can be practically applied and that proves to be of great benefit to mankind — then his cup runs over. What else is there to be desired?"

Dr. Waksman told of cases he had seen of children and adults who had used his drug, and were winning the battle against the dread disease — people who would have long since succumbed had it not been for his notable discovery. No one could have heard the recital of these stories without realizing how little money compensation meant to the great scientist as compared with that of the satisfactions that came from the feeling that, through his efforts, new battles had been won in the fight against a dread disease, and the lives of many thousands had been saved.

THE EXECUTIVE IN NON-PROFIT UNDERTAKINGS

Many economists and business men admit that non-material and non-profit incentives, as well as material and profit incentives, now serve to motivate inventors, scientists, and executives in private industry.

Nevertheless, they contend, if the hope of profit and of large economic gains were removed, the enthusiasm of the leaders of industry would lag and the productivity of the workers under them would drastically decline. Thus, say these upholders of the profit system, non-profit economic systems, based on voluntary co-operative

industry and on publicly owned and operated industry, would be bound to be less efficient than would be the profit system.

The advocates of co-operative and democratic socialist orders deny this charge. In the first place, they maintain, there are today thousands of men and women in executive positions in co-operative and public industries who are doing work of great efficiency without any thought of accumulating riches.

Management in Consumer Co-operatives

Yet, under the direction of these executives, the co-operative movement has grown steadily in country after country during the last one hundred years. In Great Britain it has developed from a business of a few thousand pounds to one of over 400,000,000 pounds. It operates over 25,000 stores, runs great wholesale departments and scores of giant factories, owns thousands of acres of farmland, manages large tea estates, administers a successful banking and insurance business, and conducts a significant educational work. It includes among the membership about half of the families of Great Britain.

Consumers' co-operatives have likewise spread to most countries on the European continent from Belgium to Russia. Before World War II there were more than 150,000,000 members of co-operative societies of all types throughout the world.

Some years ago I visited the impressive headquarters of a great Swedish wholesale co-operative abroad. I was shown around the plant by the efficient manager of the society. The building was a poem of cleanliness, order and efficiency. The administrators took evident pride in all of the varied activities of the society.

"Many economists", I said, "tell us that men in your position couldn't possibly be depended upon to do their best work unless they received a handsome salary or were spurred on by others intent on large profits. Yet you work for a salary of only a few thousand dollars a year and the co-op is run for service and not for profit. What drives you on to do your best?"

The manager smiled. It seemed to him a strange question to ask. "We in this country," he finally said, "have developed a tradition of hard and efficient service in the co-operative movement as well as in public administration."

Nor was it difficult to see that he obtained keen satisfaction from his job. He had risen from the ranks and felt a pride in the distinction which he gained when appointed to the position of

manager. He believed in the co-operative movement as a great cause for human progress. He was happy to be able to serve the cause. He was constantly receiving recognition from the movement for his able services in its behalf. He felt the thrill of its fellowship. He had intense satisfaction at the gains of co-operation at the expense of private capitalism. He was anxious to see his branch of the co-operative an outstanding success among the co-operatives of Europe. Besides he had comparative security in his job. He received a living wage and was engaged in interesting and at times creative work. Finally, his success was measured not on the basis of wealth he accumulated but of service rendered. What more did a manager need?

The history of the British co-operative societies is likewise full of instances of administrators who have worked hard and efficiently without any thought of profit. William Maxwell, president for twenty-seven years of the Scottish Wholesale Society, never received an annual salary of more than \$1,800 and for years obtained an income of but a few hundred dollars. And yet, before he died, the business of the Scottish Wholesale amounted to \$40,000,000 a year. J. T. W. Mitchell, for many years chairman of the board of directors of the English Wholesale, with its \$100,000,000 turnover at that time, received about \$2,000 a year. When asked by John Graham Brooks what spurred him on to action, he replied: "I enjoy the respect of my colleagues. I possess great power. I have a great faith in the co-operative ideal. These things satisfy me." ⁽³⁷⁾

Today the salaries of the directors of the co-operative wholesales are considerably higher than those mentioned above, but still most moderate in their nature. These directors give their entire time to the affairs of the Wholesale and are men of high integrity and ability. Many of them have refused much larger salaries from private concerns because of their interest in the movement. Similar instances may be cited in connection with the co-operative movements of many other lands. ⁽³⁸⁾

Administrator in Public Service

Nor is the voluntary co-operative movement the only large movement where industry is conducted for service, rather than for profit, and where administrators are doing efficient work without any thought of large monetary returns. Thousands of instances of efficient service rendered without hope of building up great fortunes may be pointed to in connection with the public

services here and abroad. Take the public school system of our own country. In the early part of the republic, schools were run largely on a profit basis. They are now for the most part publicly owned and administered. The educational system is a non-profit enterprise of enormous dimensions. Few of the thousands of its executives and of its million odd teachers are working with any hope of gaining fortunes out of their activity. A fair salary, a chance of promotion, safeguards against discharge, long vacations, and the numerous psychical satisfactions in the profession, rather than the possibility of large wealth, keep this army of administrators and teachers from year to year "on the job."

In many federal services may be found scores of executives who, without thought of profit, are doing a magnificent work in behalf of the community.⁽³⁹⁾ One of the conspicuous examples in America of such service is that of Colonel George W. Goethals, builder of the Panama Canal.

In dealing with the type of engineer he was able to obtain for this public service, Colonel Goethals added:

"At no time during its progress after I took charge was there any difficulty in securing competent and experienced men for the various occupations. The team work and the *esprit de corps* developed in the organization have never been surpassed." ⁽⁴⁰⁾

In the extensive research laboratory of the Public Health Service, trained specialists, with no thought of profit, are constantly at work "seeking the solution of medical riddles." In times of epidemics, fires, floods, hurricanes and earthquakes, this Service does noteworthy work in measures of control, relief and rehabilitation.

The socially efficient work of the executives in the TVA, in the Forestry Service, in the U S. Bureau of Standards, "the greatest governmental research laboratory in the world," and in many governmental services in the fields of agriculture, labor, industry, banking, public works, natural resources, education and national defense, gives further proof of the power of non-profit incentives as spurs to action both among executives and among those in the lower ranks.⁽⁴¹⁾

If we turn from the national government to state and municipal governments, and the work of entrepreneurs in the New York Port Authority, the city housing authorities, the municipal electric plants, the municipal water supply, etc., we find large numbers of executives possessing energy, initiative and imagination, to whom a moderate salary in a community enterprise has

far greater fascination than a fortune in profit-making ventures.

Outside of the United States, in Canada, in Europe, in Australasia, etc., especially in countries controlled by labor and socialist governments, thousands of instances can be adduced to managerial staffs in publicly owned and operated industries who are giving remarkably efficient service to the community without any thought of large money returns.

Need for Improvements in Public Enterprise

Up to the present time, however, no government has given sufficient attention to the development of efficient administrators. The question of the incentives that are most potent in producing results has been given little study. In the United States, salaries in public service have often been too low.⁽⁴²⁾

Appointment and promotion in government services have often depended too much on political partisanship. There has been too much red tape in state departments. Officials performing conspicuous public service have often failed to obtain sufficient recognition.

Moreover, the government, as the Hoover Commission Report on Reorganization has shown, has failed to adjust its political machinery to the social and industrial functions it is increasingly assuming. Government officials have frequently shown opposition to successful public services, and have done their best to sabotage them or to divert their benefits from the public at large.

Executives in government industries abroad have likewise been greatly handicapped in performing socially useful activities by dictatorships on the right and on the left. In Russia, since the Revolution, there have been many examples of efficient administrative activity without thought of anything but a modest financial return.⁽⁴³⁾ And yet, the quest for ever increasing power on the part of the inner circle of the Russian dictatorship, and the ruthless treatment of administrators who have failed to show results (often impossible of realization) that have been demanded of them by the government, have often had a paralyzing effect on administrative initiative and efficiency. Where a country, in fact, is ruled by a political dictatorship, all workers are subjected to autocratic controls that dampen initiative, decrease productivity, and which prevent the flowering of human personality. Only under democratic political institutions which seek to incorporate democratic principles and practices into all aspects of the nation's life,

can the executive be assured of the freedom and security necessary to his finest endeavor.

Administrator Under a New Social Order

What about a co-operative social order, where the basic industries are publicly and co-operatively owned and democratically managed for the common good?

Our examination of the incentives that are brought into play to stimulate enterprise in the modern private corporation and in public and co-operative industries indicates that, under a democratic co-operative or socialist order, adequate economic incentives for maximum service could be assured.

As material incentives, there would be the assurance of employment so long as one was doing useful work; good salaries, and promise of promotion and higher remuneration as a reward for efficiency. There would be the further knowledge that, while working, one was at the same time helping in the collective effort of providing security for himself, his family, and his fellow citizens against the exigencies of unemployment, sickness, accident and old age.⁽⁴⁴⁾

To be sure, the extraordinarily high salaries which many executives now enjoy in the giant private corporation—salaries rising into six figures—would not be paid under a co-operative social order, as they are not being paid today in co-operative and public industries. But, as has been brought out elsewhere, modern economists, psychologists and business men are discovering that, after an executive receives a salary sufficient to enable him to secure the necessities and some of the comforts of life, further increases in remuneration ordinarily have little effect upon his efficiency. These students of industry are in agreement with Chester I. Barnard that "the unaided power of material incentives, where the minimum necessities are satisfied . . . is exceedingly limited as to most men."⁽⁴⁵⁾

The executives under a co-operative social order would be stimulated to do their best work by non-material, as well as material incentives; by the honor accorded them by the community; by a desire for status in their professions; by a sense of achievement, and by other motives now powerfully at work in co-operative, public and even in private enterprises.⁽⁴⁶⁾

"The sense of doing important and interesting things [writes J. A. Hobson] has a high personal value which can be enhanced by fame and honor. Where a competitive system allows enormous pecuniary

rewards for certain sorts of skill and enterprise, these rewards will be sought and claimed, partly for their own sake, partly as the index of success. But were they unattainable, other motives might operate with equal force. Self-assertion, power, good fellowship, exercise of skill and judgment, reputation, not to speak of the satisfaction of doing useful work—these motives also belong to ordinary human nature.” (47)

Under a socialized order the genuine executive and technician would probably have far greater satisfaction in his work than at present, when the financial speculator is in many cases constantly driving him on to place speculative profits above good quality and low prices. To do its work as it should be done, as Professor Veblen has brought out, “the industrial general staff must have a free hand unhampered by commercial considerations and reservations . . . Yet the absentee owners, now represented, in effect, by the syndicated investment brokers, continue to control the industrial experts and limit their discretion, arbitrarily, for their own commercial gain regardless of the needs of the community.” (48)

It is true that these incentives might not appeal to the older pioneer type of enterpriser, who made decisions at a moment's notice, depended upon a sort of uncanny “hunch” to guide him in these decisions and demanded a free hand to speculate with his own or other people's money. But it must be remembered that, even under private ownership, that type of executive is gradually giving way to another type who decide questions after careful analyses of statistics compiled by research departments and after consultation with trained experts. (49)

Under a co-operative order most of the socialized industries would be well developed and removed from the pioneer stage. Basic industries would be coordinated under national planning boards. There would thus be far less guessing than now exists even under a complete private monopoly and far less place for the older type of business entrepreneur.

There would undoubtedly remain, under democratic socialism, numbers of men of the individualistic, anarchistic type of mind, who would feel decidedly out of place as executives of a publicly owned industry. Some of these might find scope for their activities in the smaller, newer industries which had not as yet been taken under the wing of the public. (50) But in most cases society would be far better off if it denied to many of these the opportunity to exploit their ego at the expense of the public—men of the type of Ivar Krueger, the international “match king,” of Samuel Insull, of H. S. Hopson, in the electrical field, and a host of others. (51)

In fact, too much of present day business ability, as the British economist Hobson pointed out, "runs either into wasteful competition, financial gambling, or restriction of markets, and is responsible for the uncertainty and insecurity that everywhere carry such heavy material and moral damage." ⁽⁵²⁾

The elimination of these anti-social activities of administrators under a co-operative system does not, of course, necessarily mean the absence of rivalry for positions of service and influence in public industry. This sense of rivalry and emulation between individuals and groups is being consciously stimulated in various public and co-operative enterprises at the present time.

Rivalry, declared William James, does nine-tenths of the world's work. ⁽⁵³⁾ However, as Professor Charles H. Cooley of the University of Michigan declared, "In order to work effectively in the service of society, rivalry must be disciplined and organized. This means, chiefly, that men must associate in specialized groups, each group pursuing ideals of technical efficiency and social service, success in this pursuit being the object of rivalry." ⁽⁵⁴⁾

In college athletics, among lawyers, dentists, bacteriologists, astronomers, historians, painters, novelists and even poets, this sense of rivalry persists "In any of these fields, there is a selected group of candidates for distinction, watching one another's work, eager to excel, imagining the judgment of their fellows, testing achievement by expert criticism and by comparison with high examples." There is also the more or less systematic course of training which all must go through, and a tradition to which all refer. This type of emulation would, in all probability, be developed under a co-operative order.

New Types of Public Ownership

Before World War I, advocates of public ownership were told by their opponents that public administrators were bound to be appointed because of their political influence rather than their technical efficiency, and that the good executive, if appointed, would find himself tied by red tape and unable to develop his initiative.

Today, however, a new kind of public corporation is gradually evolving. We witnessed its development in the government corporations during the two World Wars and in such corporations as the Port of New York Authority, the TVA, and the hundreds of municipal housing authorities. The ownership of these corporations resides in the community. The management, under numerous

restrictions, is in the hands of a board of directors representative of the public. The corporation is operated usually at cost. No one makes a profit. The main aim under a democratic government is public welfare. The final control resides in the state.

The nature of the many of this new type of public corporation has thus been summarized by the *New Republic*:

"The government may set up a corporation which has as much freedom from legislative interference and red tape as any other corporation. The legislature may define the purpose of the corporation and outline the method of its control; it may make an initial appropriation; beyond that its detailed control may stop. If the corporation has any voting stock, that stock may be vested in an executive official who has an advisory board, or it may be vested in a specially chosen board of directors. This chief authority, whoever he is, proceeds to direct and take full responsibility for the government's business, just as if he were a corporation director representing private stockholders. The forms which have been developed to handle business undertakings are utilized for government service. The political administration whose prestige largely depends on the success of such an important undertaking is likely to take pains to discover a good manager."

Socialists would have more democracy than now prevails in most public corporations. They urge a "functional control" under which the technician, consumer and worker would have an adequate opportunity to participate in the determination of policies. The executive would probably be appointed by a widely representative board of directors, rather than by a politician from the outside. In this way both efficient management and democratic control in the interest of workers and consumers might well be assured.

The Inventor in a Co-operative System

Under a co-operative commonwealth, salaried inventors in research laboratories of public industries, as Charles Steinmetz said, would have a greater incentive for superior work than at present. They would be more secure in their positions. They would be esteemed as valuable servants of the people. And they would have the knowledge that, when the community installed a new invention, the results would immediately be reflected, not in increased unemployment for the workers and increased profits for the few, but in greater leisure and a better life for all.⁽⁵⁵⁾

Under a socialized order the masses of the people would be far better educated than at present. They would have more leisure for creative work. They would be encouraged far more than at

present, when they have no share in the ownership or management of industry, to make some contribution toward industrial and scientific progress.

"Leisure [writes Hobson] is a first condition for all free and fruitful play of the mind. Very few inventions have come from workers compelled to keep their noses to the grindstone, and unable to let their eyes and thoughts play freely round the nature of their work. This is why slavery contributed so very little of the development of the industrial arts: this is why so comparatively few inventions of importance have been made by hired laborers in this and other countries. The strongest economic plea for a shorter and a lighter working-day is that it will liberate for invention and industrial progress the latent creative energy of countless workers that is stifled under the conditions of long day's monotonous toil." (56)

The main need of the present day, however, is not more invention, but the power to utilize already existing inventions in the service of society.

THE RANK AND FILE WORKER AND THE ARTIST

The Worker Under Capitalism

Thus far we have discussed the problem of incentive as applied to the administrator, to the inventor and to the scientist. The planning, the direction of work, and the development of new processes in industry are immensely important. To make an army, however, there must be more than officers. There must be privates in the ranks. To make an industry, there must not only be management. There must be rank and file workers.

It goes without saying that the ordinary workers under capitalism are not motivated—except to a very small extent—by the profit incentive. Instead of profit, fear is used by many a management to focus the workers' interest on his job—this fear of discharge if they loaf, if they sabotage. The employer can usually point to the line of men and women ready to take his place.

Fear is not the best incentive for good work. From the standpoint of living a good life, it is deadly. But it does operate powerfully in industry, nevertheless.

The average worker labors likewise for the things which motivate other groups: the desire to make a living; to feed, clothe,

shelter and educate himself and his family; to buy a few comforts; to enjoy a vacation in the country; to put aside something for a rainy day; to raise his status in the shop and in the community; to obtain a higher position, and a higher wage or salary.⁽⁵⁷⁾

He works, like others, but of habit and tradition and because of his desire to carry his own load in the battle of life. He works, even when conditions are hard, because of certain non-material satisfactions which his labor affords to him.⁽⁵⁸⁾

Labor Under Democratic Socialism

Under a democratic co-operative system a worker would have far greater incentive to do his best, say democratic socialists, than under capitalism. A democratically planned society, they maintain, would eliminate many of the wastes of competitive and monopolistic industry; utilize to the full existing material and human resources; equitably distribute the products of industry, and make possible a great reduction in the hours of labor. The worker would be a part owner, as a member of the community, of the industrial life of the nation. He would have a voice in industrial management, and a feeling of status that private industry rarely offers.⁽⁵⁹⁾

To the extent that higher salaries and wages were necessary as a stimulus to efficiency, the worker would receive such wages. He would be secure in his employment as long as he did good work. He would be under the eye not of one boss, but of all his fellow workers who depended on his cooperation for their daily bread. The moral pressure which the mass of workers could exert on a slacker would be a powerful one, as has already been proved in co-operative industry. Prizes, recognition, competition with other groups, and many other non-profit incentives could likewise be brought into play to stimulate increased effort.⁽⁶⁰⁾

If the average man works tolerably under capitalism, with all of the obstacles put in the way of worthy accomplishment, what might be expected of him under a co-operative society!

"A system such as we live under today [writes G. D. H. Cole] encourages each of us to regard as the ideal the getting of the largest possible reward for the least possible work. It encourages shirking by representing work as an unpleasant means to purely personal or domestic ends, and not as a common social obligation whose fruits are to be applied in the common interest. The existence of a class that is permitted to live without work acts as a standing inducement to regard

work as an evil which it is reputable to avoid. It manufactures shirkers and has to call in the coercion of hunger to redress the balance. Give them [the workers] an assurance that a real attempt is being made to organize the affairs of society in the general interest, and that some of them are not being used merely as means to private ends of a narrow class, and they will speedily begin to cast off the mental chains in which they have hitherto been bound." (61)

Under the profit system, declare our social planners, thousands of workers know that the harder they labor and the sooner they finish a job, the sooner they will find themselves jobless. Many likewise have had bitter experience in speeding up far beyond their capacity in an effort to make a living wage, only to find their piece work rates reduced and the struggle for existence more difficult than before.

It is true that, under an insecure profit system, the fear of discharge is the negative stimulus that keeps many from "loafing on the job." It is true that, under socialism, workers would be safeguarded in their position. They would not be discharged at the mere whim of a boss. They would be given a hearing, and if conditions necessitated a shift in industry, they would receive opportunities elsewhere.

It is not true, however, that workers could not be discharged for misconduct under a socialistic order. The community would have to have some way, in the last analysis, of protecting itself. But its entire emphasis would be placed on positive incentives, which are usually much more effective in inspiring the best work than the negative drive of fear.

A special effort would also be made under a co-operative order to adjust jobs to capacities; to give a worker a sense of how his operation fits in with the requirements of the industry and how necessary his contribution is to social progress.⁽⁵⁹⁾ Many cases of bad work today are due to the placement of workers in jobs for which they are not fitted.

Time and again the question has arisen, "Who would do the dirty work under a co-operative order?" Of course much of the "dirty work" now done could be eliminated by the universal application of machinery already in existence. Much of the "dirty work" of a generation or so ago has been already eliminated by machinery. If the community of workers consciously turned their attention to this problem, the "dirty work" under a new social order could be reduced to a minimum.

Some of it, however, would remain. Today we usually pay low wages to those who do the disagreeable work, and, in addition,

look down upon them as inferior human beings. Under a democratic social order, say its advocates, it would be possible to give special inducements, as Bernard Shaw ⁽⁶³⁾ and others have suggested, in the form of higher pay and shorter hours, while the attitude of society toward them as doers of vitally necessary work would distinctly change.

In many discussions of commonplace and routine labor under socialism, critics fail to realize that workers do not all have the same taste either in work or play. Some prefer manual work; others, brain labor. Routine work, though uninteresting in itself, takes less out of a person unless it involves heavy physical toil or close mental concentration.

"Many people [declared John A. Hobson] do not want to think, or to take responsibility. They are willing to submerge their private personality for so many hours a day in obedience to easy orders, in order to conserve energy for leisure interests or home life. A certain amount of routine monotonous work does not cost much. Here is the chief argument for a shorter work-day. It involves less human cost, and it leaves more time for the utilization of all economic goods and other non-economic opportunities. Consider what hard plodding work men will do for exercise or sport, and it becomes apparent that a good deal of common labor in the form of digging, carrying weights, laying bricks, even tending machinery, might be got gratuitously." ⁽⁶⁴⁾

It is true that, under a non-profit system, the average worker would not be driven on by the thought that he might some day become a millionaire. But under capitalism few rank and file workers have now any illusion in this respect. The fight for survival, for a living and saving wage, for economic security, are far more powerful influences in the daily activity of the ordinary worker than is the dream of riches. The ordinary worker, says the democratic planner, has everything to gain and nothing to lose by working for a co-operative system.

The Artist Under Private and Public Enterprise

Thus far we have dealt chiefly with the industrial, rather than the cultural, life of the nation. How about the artist, the poet, the writer, the professional worker generally under a socialized order? What would be their incentives, as compared with their urge to action under capitalist society?

Few creative artists today do their best work for money. The profit incentive frequently perverts and commercializes their art. In a society where they were guaranteed their living, leisure to

create, and a social and cultural atmosphere appreciative of their efforts, they would thrive to an extent impossible under a commercialized society.

"In a thoroughly commercialized society [writes Bertrand Russell], an artist is respected if he makes money, and because he makes money, but there is no genuine respect for the works of art by which his money has been made . . . It is not appreciation of the artist that is necessary so much as appreciation of his art. It is difficult for an artist to live in an environment in which everything is judged by its utility, rather than by its intrinsic quality. . . .

"The easing of the struggle, the diminution in the hours of work, and the lightening of the burden of existence, which would result from a better economic system, could hardly fail to increase the joy of life and the vital energy available for sheer delight in the world. And if this were achieved there would inevitably be more spontaneous pleasure in beautiful things, and more enjoyment of the work of artists." (65)

Space forbids more than a passing reference to the various professions. In the field of medicine, most physicians would even now spurn the idea of patenting a great medical discovery in search for private profit. And increasingly throughout the world there is a demand for comprehensive public provision of health services as the only means whereby the masses of the people and the middle groups in the population may obtain competent medical care. Many physicians now do their best work in the service of the community. Many more would willingly exchange the increasingly insecure status and the fierce competitive struggle of private practice for the security, regularity, and opportunity to follow their calling provided by public service under a democratically planned society. Some of the great pecuniary rewards which a small minority of physicians reap would be absent, but the psychical rewards would be far greater than at present.

Quest for Riches as an Anti-Social Force

In discussing substitutes for the profit incentive in industry, some people seem to take the view that the quest for profits and large fortunes stimulates business men only to socially useful activities. Therefore, anything which interferes with these activities, they claim, will injure society.

Even a casual examination, however, will indicate, as I have before said in this pamphlet, that many of these business activities in behalf of large pecuniary returns are anti-social in their nature, and that their elimination would be altogether in the public

interest. It is the quest for profits that has been largely responsible for child labor, for the manufacture of shoddy and adulterated goods, for the bitter resistance of employer to labor organizations, for the pressing down of wages often to the starvation point, and for the retention of the long work week, despite the great development of machine production.

The desire for the acquisition of large fortunes has led men to destroy forest lands without thought of future generations; to skim the cream from the coal mines, leaving great quantities of coal to remain forever irrecoverable; to gamble with the bank funds of the poor; to pervert the tastes of millions through newspapers, magazines, movies, radios; to corrupt courts and public officials; to devote millions to propaganda against movements for the common good, and ruthlessly to exploit peoples of other lands. It is a chief cause for the periodic breakdowns in our economic life, with its resulting tragic suffering.

"At present [declares Dr. Rexford G. Tugwell] it is possible to suspect that the decoy of the gain-getting motive as an inducement to productive enterprise may have been accompanied by its transfer to essentially anti-social activities. Corporation officers pay too little attention to their duties and too much to the ticker-tape; inside rings exploit the businesses under their control; market cornering and supply limitations become favorite methods of gain-getting. All these and a thousand other activities have less to do with the productivity of our system than is implied in our easy explanations that gains are necessary to call them out. A large share of the initiative and enterprise thus called out might better, perhaps, have been uncalled." (66)

IN SUMMARY

We have thus seen in this brief survey of incentives that the great mass of the people now employed are not working with an expectation of accumulating large profits.

The business man of the past was, it is true, stimulated to activity in considerable part by the lure of profits and high financial stakes. He was both the owner and the manager of his concern, and any profits that were earned went directly to him. He worked hard for profits partly because of the power and the comforts which these profits brought to him, largely because the greater his profits the more successful he was regarded by his fellowmen. But even in his case many other material and non-material drives to action were powerfully at work besides the desire to gain riches.

In the modern corporation, the direct profit incentive is playing a role of ever less importance in the work of administrators.

For in the great corporations, ownership and management are separated. The owners are usually inactive, absentee stockholders who have nothing to do with operation. Many of the managers, on the other hand, own little or no stock. They, together with the rank and file workers, help to create the profit. The profit, however, goes for the most part, not to them, but the inactive owners. The classical economist's analysis of the place of the profit motive in the administration of industry has thus little reality in modern industry. As for the vast co-operative and public enterprises in the democratic countries of the world today, they are conducted by men and women who have little expectation of obtaining anything more than a moderate salary as their material reward.

In invention and scientific research, it has long been true that the great thinkers and doers in these fields have been urged on by the creative instinct, a desire for fame and other non-commercial motives, and that the desire for riches usually occupies a small place in their activity. The large money rewards have generally gone to others. The free lance inventor is increasingly giving way to the salaried worker in the research laboratories of large corporations. These workers obtain a wage for their work. Any profit resulting from their researches goes not to them, but to the corporation.

Nor must it be assumed that the profit urge, when effective in stimulating activity, has led to results of a wholly useful nature. Much of that activity has been harmful and anti-social. As for the rank and file worker, the accumulation of profits has played little part in his work-a-day life.

Under a democratic co-operative order every incentive except that resulting from the hope of accumulating large fortunes, could be brought into play as a means of enhancing industrial activity. As material incentives, there would be good salaries, economic security, promotions and increases of pay, shorter hours, etc., for meritorious work.

As non-material incentives, would be found the desire for activity; the urge to create, to exert influence and power over others and to stand well with members of one's craft, profession, family, industry, community. There would be the sheer fun of overcoming man-made and nature-made obstacles, the feeling of loyalty to a great co-operative enterprise, and a desire to advance the welfare of one's fellow men.

The objection to a non-profit order on the ground that it would fail to furnish a sufficient incentive to action is usually based

on a false conception of motives now at work in private industry; on an ignorance of the genuinely efficient work now taking place in non-profit enterprises; on the confusion that exists between the workings of a totalitarian and a democratic social order, and on a false idea of human activity in general. Every new advance in social psychology indicates how inadequate was the old belief in the innate laziness of man.

Finally, it may be recalled that, when economists raised the incentive objection some generations ago, the great need of the times was for greater productivity. Industrial production was at a low ebb, and even if industry at that time had distributed the fruits of labor in an equitable fashion, poverty would still have been with us.

During the last generation or more, we have mightily enlarged society's ability to produce. No longer is the main concern of industry in highly developed capitalist U.S.A. that of stimulating inventors and administrators to improve technical and administrative methods. Our great need is economic security, the full utilization of our material and human resources through democratic social planning, and the equitable distribution of the products of industry. Only when industry is organized on a planful service basis will the solution of our present difficulties be possible.

Moreover, we can never hope to provide an ethical foundation for our industrial life until Human Service takes the place of the Acquisition of Riches as the main aim of our industrial civilization.

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FOOTNOTES TO TEXT

(1) Profit is technically defined as the surplus remaining after all the costs of running a business, including the wages of management and labor, allowances for depreciation, interest on capital borrowed, etc., have been met. It is the effort to secure a part or all of this surplus, aside from compensation for services rendered, that constitutes the pursuit of profit, in the strict sense of that term. Many, however, use the word profit to include any income received in the form of interest, rent or dividends resulting from capital investment, risk taking, abstinence from consumption, or exceptional promotional or managerial ability.

(2) DeMan, *Joy of Work*, p. 18; See Stuart Chase, *Poor Old Competition*. "Constructiveness is a genuine and irresistible instinct in man as in the bee or beaver," declared William James. "Man is . . . not naturally lazy," declared the late Carleton H. Parker, "but innately industrious. Where laziness exists it is an artificial habit, inculcated by civilization. Man has a true quality sense in what he does: there is, then a 'dignity of labor', and it is the job and the industrial environment that produces the slackers, and not the laborer's wilful disposition." (Parker, *The Casual Laborer and Other Essays*, p. 145, N. Y.: Harcourt Brace, 1920).

(3) *The World Tomorrow*, April 12, 1933. Professor Taussig, late Harvard economist, saw the business man motivated by the instincts of (1) contrivance or construction; (2) acquisition or accumulation; (3) domination; (4) emulation (not to be classed as a separate instinct); (5) sympathy, altruism or devotion. (*Inventors and Money Makers*, p. 79).

John Stuart Mill emphasized that a powerful drive to continued activity on the part of the small business man was his desire to remain his own master, instead of a hired laborer, and pointed out the fact that many an entrepreneur consumed his small fortune in an unsuccessful struggle for independence. (J. S. Mill, *Principles of Political Economy* [London: Ashley ed., 1909] pp. 428-29).

Alfred Marshall maintained that an organizer of improved methods among business men was stimulated by "emulation more than by any love of wealth for its own sake," and declared: "Just as a race horse or an athlete strains every nerve to get in advance of his competitors, and delights in the strain, so a manufacturer or a trader is often stimulated much more by a hope of victory over his rivals than by the desire to add something to his fortune." (Alfred Marshall, *Principles of Economics* [London: 8th ed., 1927] pp. 14, 23, 603).

To Professor Joseph A. Schumpeter of Harvard University, past President of the American Economic Association, the entrepreneur is motivated by "the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself . . . and [by] the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity" (Joseph A. Schumpeter, *The Theory of Economic Development*. Harvard University Studies, Vol. XLVI, 1934, p. 93).

Fear of bankruptcy, and fear of temporary financial difficulties have been suggested by R. A. Gordon as more powerful influences on the entrepreneur than the drive for maximum profits (See *American Economic Review*, June, 1948, p. 271). Moses Abramowitz is of the opinion that the motivations of the business man differ at different stages of the business cycle. During the upswing of the cycle, he operates chiefly with regard to the volume of profits. During its downswing, he is influenced primarily by a desire for security.

Professor George H. Evans, Jr., of John Hopkins University, declares that there are different types of entrepreneurs. Some are primarily managers; some, chiefly innovators, and others "controlling" entrepreneurs. He declares that, on the basis of a large variety of observations, "one might venture that security

is the prime motivating force for the managing entrepreneur, *adventure* for the innovator, and *power* for the controlling entrepreneur." (See Papers and Proceedings of 61st Annual Meeting of the American Economic Association, *American Economic Review*, May, 1949, p. 340).

Stuart Chase, speaking not only of the business man, but of men and women in general, maintains that 99 per cent of the people make no profits. Besides the profits incentive, he cites at least 10 other incentives, including (1) the biological urge toward congenial work; (2) fear; (3) power; (4) public recognition; (5) loyalty to one's group; (6) desire to win; (7) love of a person; (8) religion; (9) the creative impulse; (10) higher salaries. (*Poor Old Competition*, p. 19-21).

(4) See Report of the Smaller War Plants Corporation, *Economic Concentration and World War II*, p. 6. See also Laidler, *Concentration of Control in American Industry*, p. 7; Berle and Means, *The Modern Corporation and Private Property*, Ch. III; Twentieth Century Fund, *Big Business — Its Growth and Its Place*.

(5) Oswald Knauth, *Managerial Enterprise*, Norton, 1948. Dr. Knauth brings out the fact that it is even difficult for the stockholder to learn what is actually going on in the corporation as a basis for intelligent action (p. 37).

(6) *Review of Reviews*, March, 1929.

(7) Gardener C. Means, *Quarterly Journal of Economics*, November, 1931; Berle and Means, *op. cit.*, Ch. IV.

(8) *American Economic Review Supplement*, March, 1932.

(9) Herman Finer, *Road to Reaction*, pp. 100-10. Also No. 1455, 1934, 73rd Cong., 2nd session.

In *Winkelman vs. General Motors Corporation* (39 Fed. Supp. 826, *aff.*) the court held that bonuses must bear some relation to the value of the services rendered, and that otherwise they constituted gifts that had to be returned to the company. Subsequent review resulted in an order that the sum of \$4.5 million be returned by the recipients to the corporation. (See Knauth, *Managerial Enterprise*, p. 40).

(10) Paul H. Douglas in Tugwell's *Trend on Economics*, p. 178.

(11) *The Autobiography of Andrew Carnegie*, p. 203.

(12) *World's Work*, June, 1926; See also Walter Lippmann, *Drift and Mastery*, esp. pp. 46, 49.

(13) Chester I. Barnard, *The Functions of the Executive*, p. 144 (Harvard University Press, 1938). Mr. Barnard repeats the assertions of other experts in this field that even when executives strive for money they desire it merely as a means of satisfying non-materialistic motives and as an index of social status and personal development. Among the non-materialistic incentives which drive on the administrator to his best efforts, Mr. Barnard enumerates prestige, position, pride of workmanship, a sense of adequacy, altruistic service in behalf of family and others, loyalty to one's organization and one's nation, and aesthetic and religious motivations. At times such negative motivations as hate and revenge play their part. He emphasizes the fact that, in the capitalist economy, "the inculcation of 'proper' ambitions in youth have greatly stressed material possessions as an evidence of good citizenship, social adequacy, etc." "Hence," he maintains, "when underlying and governing motives have not been satisfied, there has been strong influence to rationalize the default as one of material compensation, and not to be conscious of the controlling motives, or at least not to admit them." (p. 144).

(14) See Veblen, *Engineers and the Price System*. Mr. H. S. Hopson's speculations in the Associated Gas and Electric system and Mr. Samuel Insull's speculations in his electrical empire are cases at point of such sabotage. (Laidler, *A Program for Modern America*, esp. p. 286, 298).

(15) See Waldemar Kaempffert, *Modern Wonder Workers*, esp. pp. 13, 84, 107, 167, 230, 273. See also F. W. Taussig, *Inventors and Money Makers*.

(16) Taussig, *Inventors and Money Makers*, pp. 21-3. Professor Taussig feels, however, that the money motive is more of a force in the lives of the second rate inventors than in those of the top notchers. In many cases, he regards money making as a dominating force. He adds, however: "This is the case, at all events, under the existing social organization, in which every man, whatever his bent, is constantly under the sway of the narrower self-regarding motives. The whole structure of private property is built on the foundation of a striving for one's own. Inventors, poets, painters, business men — all are like in the folds of a system which compels them to exercise their powers for their own advantage. The fact that the instinct of contrivance is at present turned to advantageous exercise by the motives of material gain does not prove that such motives are indispensable under any and every economic system" (p. 52).

(17) Kaempffert, *Modern Wonder Workers*, p. 322.

(18) *Ibid.*, p. 271. See also accounts of Tom Davenport, Samuel Morse, Faraday, James Clark Maxwell, et al., p. 107, 296, 352, 355.

(19) *Ibid.*, p. 272.

(20) *Ibid.*, p. 397.

(21) *Harper's Monthly*, Sept., 1932, pp. 414-5.

(22) See the admirable article by Paul H. Douglas, later U. S. Senator, on "The Reality of Non-Commercial Incentives in Economic Life," in *The Trend of Economics*, Edited by Rexford G. Tugwell, pp. 153 et seq.).

(23) Tyndall, *Faraday as a Discoverer*, p. 189.

(24) Tyndall, *op. cit.*, p. 190.

(25) J. H. Gladstone, *Michael Faraday*, pp. 110-11.

(26) *Life and Letters of Charles Darwin*. Edited by Francis Darwin. Vol. I, pp. 55, 83.

(27) Douglas in Tugwell's *The Trend in Economics*, p. 161.

(28) See also Vallery-Radot, *The Life of Pasteur*, p. 129.

(29) *Ibid.*, p. 451.

(30) See *Life of Ilya Metchnikoff* [1845-1916], by Olga Metchnikoff.

(31) See also Agnes C. Clerke, *The Herschels and Modern Astronomy* and *Life and Letters of Thomas H. Huxley*.

(32) Douglas, *op. cit.*, p. 169.

(33) See *Personal Recollections of Werner Von Siemens*, p. 353.

(34) See John A. Hobson, *Work and Wealth*, pp. 49-50.

(35) In the *Socialist Review*, November, 1919, Dr. Steinmetz wrote:

"Obviously in a socialistic society there would be no special interests opposing the inventor's fullest recognition; no man belittling and denying the invention for commercial reasons, and the realization that a successful invention would be immediately adopted by the whole national or even international industry, and used for the common good, that it would make the inventor a national hero, but a hero of creation and not of destruction — as have been most heroes of past days — all this will necessarily be an incentive for the inventor far greater than anything present-day society has to offer."

(36) *New York World*, Feb. 6, 1927.

(37) Charles Gide, *Consumer's Co-operative Societies* (Eng. translation), p. 6. In discussing some of the things that keep the moderately paid executives in the co-operative movement, Sidney and Beatrice Webb declared that it was "to some extent a greater security of tenure and freedom from 'worry' than in competitive business, but even more the attractiveness of comradeship in a great popular organization: the consideration that they enjoy as the public administrators and leaders of a widespread democracy; and the consciousness of social service." (*The Consumers' Co-operative Movement*, p. 16). "No private fortunes," the Webbs declare elsewhere, "have ever been made out of the co-operative movement." (*Ibid.*, pp. 389-90.)

(38) Sidney and Beatrice Webb, *The Consumer's Co-operative Movement*, p. 128; James W. Warbasse, *Co-operative Democracy*.

(39) Charles and William Beard, *The American Leviathan*, p. 379. In 1949, around 6 million workers, one out of every eight or nine, in the United States was a government worker. To direct their efforts requires an army of public administrators. (See Solomon Fabricant, *The Rising Trend of Government Employment*, 1949, p. 3).

(40) Scribners, March, 1915, pp. 281-2.

(41) See Robert Marshall, *The Social Management of American Forests*; Beard, *The American Leviathan*, esp. p. 618; David E. Lilienthal, *TVA: Democracy on the March*. After commenting on the enthusiasm of the technical staff of the TVA, due, in part, to the fact that they feel that they are performing an important service for others, Mr. Lilienthal remarks: "The notion is naive that only by the incentive of profit do 'men keep on their toes'." (p. 122). A striking example of the initiative shown in such government agencies as the U. S. Department of Agriculture's Research Laboratory at Peoria was the work of Dr. Andrew J. Moyer which increased the penicillin yield from the penicillium mold a hundredfold. (*P. M.*, March 28, 1946). Needless to say, Dr. Moyer did not receive a penny from his great contribution.

(42) "The salary of a member of the Cabinet [declares a prominent American economist] is not enough to command the services of an outstanding man for an indefinite time, but this is chiefly because private business offers so much more. If business paid no more than the public service . . . high grade talent would still be forthcoming, and it would be easier for the government to get its fair share." John Maurice Clark, *Social Control of Business*, pp. 43-4.

See also Prof. Marshall E. Dimock's article in "The Potential Incentives of Public Employment" in *American Political Science Review*, August, 1933. Professor Dimock urges higher remuneration for executives in public industry; emphasis on good work, with a view of development of pride of craftsmanship; the increase in public approbation for services rendered; increased security and the development of latent incentives. Executives and others should, further, be educated regarding the functions and opportunities of government. "The incentives of public employment," he concludes, "undoubtedly possess a strong and lasting appeal. The psychological rewards of craftsmanship, prestige, devotion to an ideal, and security are tangible and enduring. The civil service can be made to offer these inducements in a fuller measure. Incentives can be developed, and others can be substantially altered. The power is there, awaiting the determination and patience to release it." (p. 636).

(43) See Harry F. Ward, *In Place of Profit*.

(44) Some socialists, George Bernard Shaw among them, urge essential equality of compensation to intellectual and manual workers under a co-operative system of industry. (Shaw, *An Intelligent Woman's Guide to Capitalism and Socialism*.) Some believers in a co-operative order urge that workers should work according to their ability and should be rewarded according to their need. (John A. Hobson, *Economics and Ethics*, p. 239.), a principle adopted in the average family.

Most socialists, however, emphasize the *deed* principle, and favor the motto, "from each according to his ability to each according to his *deed*." In actual practice, under a co-operative order, the principles of equality, of need, and of deed, would each probably be given some weight. The average socialist is a pragmatist when it comes to the problem of compensation for services rendered, and would adopt those types of compensation which, in any industry, craft, place or time, gave promise of the best results. Under a co-operative commonwealth there would be constant experimentation in the application of material and non-material incentives and constant changes as a result of such experimentation.

(45) Barnard, *The Functions of the Executive*, p. 143. "Notwithstanding the great emphasis upon material incentives in modern times, and especially in current affairs [declares Mr. Barnard], there is no doubt in my mind that, unaided by other motives, they constitute weak incentives beyond the level of

the bare physiological necessities." This has been shown to be the case particularly among the new type of "managers"—men of technical skill and initiative, who will be primarily needed by the public services.

Under a democratic social order, administrators would not be conditioned from their youth to the belief that the acquisition of money was the criterion of success. Quite the contrary. They would, furthermore, not seek fortunes in order to satisfy their families' desire "to keep up with the Joneses." There would be few very wealthy Joneses to keep up with. Even today, on account of high taxes resulting from the costs of war, of military preparations and increasing social services, executives in capitalist countries find that, after paying taxes, their ability to engage in "conspicuous waste," as Veblen puts it, is seriously curtailed.

One argument favoring the receipt by a small group in the population of large fortunes is that only when large profits are assured will risk capital be invested in new industries. However, under a co-operative order, when the best brains of the community are engaged in public and co-operative enterprise, there is little reason to doubt that the capital of the government and voluntary co-operative enterprise will be available, though in a less hit and miss fashion, for new undertakings that give promise of social usefulness. The timing and direction of these capital investments would be determined, however, not by the amount of profit to the few that such an investment would yield, but how much service it would render to the many.

(46) Lord Haldane, before the British Coal Commission, maintained: "I think there are a great many men who would be prepared to serve the state at moderate salaries, if they were to have the prospect of becoming distinguished in the sense of having rank and recognition." (Hobson, *Incentives and the New Industrial Order*, p. 86). The truth of this statement has been time after time verified by events. When the British government nationalized the coal industry, it secured as the chairman of the National Coal Board, Lord Hyndley, reputed to have "a more extensive knowledge of the coal industry than any other man," and, among others, the former chairman of the European Coal Organization; an eminent university physicist; a well-known chartered accountant; two distinguished mining engineers, and two able trade union leaders. The board of other industries nationalized during the years 1945-1949 by the Labor government likewise contained many distinguished men and women anxious to serve the community.

(47) Hobson, *Economics and Ethics*, p. 252.

(48) See Veblen, *Engineers and the Price System*.

(49) See Walter S. Gifford in *World's Work*, June, 1926. See also Marshall E. Dimock in *American Political Science Review*, August, 1933, p. 630.

(50) John A. Hobson, *Work and Wealth*, pp. 291-2; Edmond Kelly, *Twentieth Century Socialism*, p. 303. Mr. Kelly argued some years ago that when competition was eliminated, nine-tenths of the difficulty of management would be avoided.

(51) See also John T. Flynn, *Graft in Business*.

(52) J. A. Hobson, *Economics and Ethics*, p. 250; Hobson, *Incentives and the New Industrial Order*, Ch. II.

(53) *Psychology*, Vol. II, p. 409.

(54) Cooley, *Human Nature and the Social Order*, pp. 306-10.

(55) Nor must we lose sight of the fact that many a corporation now buys an invention not to use it, but to prevent competing firms from getting hold of it. It is put in the "morgue" and may never see the light of day.

(56) Hobson, *Work and Health*, pp. 51-2.

(57) *Ibid.*, p. 61.

(58) A study of why men work made some years ago in Europe showed that many workers were stimulated by the appreciation shown by their superiors. Some showed pleasure in the use of certain tools, machines, animals. Many spoke of the satisfaction of working with groups of men and women, of the pleasure of leading and of being led, and the sense of social usefulness. On the

other hand, many hindrances were found to joy in work. The study showed that work becomes an increasing burden when it involved too great monotony; when initiative was reduced to a minimum; when labor was accompanied by too great fatigue; or was conducted under unjust conditions and amid ugly surroundings; when it involved harsh discipline from above, and when it was attended with a loss of standing in the community and with a sense of economic insecurity. (De Man, *Joy in Work*.)

(59) Stuart Chase, in *Men At Work*, (Ch. 2) describes the increase in productivity on the part of employees of the Western Electric plant at Hawthorne, N. J., after the company gave them a feeling, during a study of industrial productivity, that, instead of being separate cogs in a machine, they had become "a congenial team helping the company to solve a significant problem." See also James F. Lincoln, *Lincoln's Incentive System*, p. 47.

(60) R. B. Wolf, engineer, describes how he was able to more than double the production of paper by establishing a system of continuous records, whereby workmen could measure the efficiency of their work with others. He maintained that the increased productivity resulted from the freedom the men were experiencing and the knowledge of the process. "Financial Incentives" (1673, 1918).

(61) Shaw, *Unemployment*, p. 78 "Give more leisure, earlier retire. . . into the super-annuated class, more holidays, in the less agreeable employments, and they will be as much sought after as the more agreeable ones with less leisure." However, Mr. Shaw believes that it is often not the dirty work that is objected to so much as its association with poverty and degradation. "Some of the dirtiest work in the world is done by titled surgeons and physicians who are highly educated, highly paid and move in the best society. . . . Both the parlormaid and her employer (I dare not say her mistress), if they are fond of flowers and animals, will grub in a garden all day, or wash dogs or rid them of vermin with the greatest solicitude, without considering the dirt involved in these jobs the least derogatory to their dignity." *Ibid.*, pp. 74-5. Whiting Williams, in his *Mainsprings of Men*, forcefully brings out the desire to be active, the desire to be useful, and the desire for social standing with one's fellows. (See especially Ch. VIII.)

(64) Hobson, *Economics and Ethics*, p. 259.

(65) Bertrand Russell, *Proposed Roads to Freedom*, pp. 181-3; See also Hobson, *Work and Health*, pp. 44-5.

(66) *American Economic Review*, supplement, March, 1932, pp. 79-81; see also Ward, *The Profit Motive*, pp. 28-9; Herman Finer, *Road to Reaction*, pp. 109-10; Report of Department of Interior, 1948. The Report, dealing with wastes of natural resources under the profit system, maintains that only 8 per cent of timber cutting practices on private lands can be classified as good (p. 21); that one-fifth of our natural gas is lost in the air annually (p. 9); that about one-third of our coal is lost in mining operations (p. 13).

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